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USAID FOR ANE/I STAAL, MEDINA, DAYAL; STATE FOR NEA; NAPLES
FOR USDEL TO IRAQ DONORS MEETING

E.O. 12958: N/A

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SUBJECT: EUROPEAN UNION VIEWS ON DEVELOPMENT ASSISTANCE TO
IRAQ IN 2008 AND BEYOND (C-RE8-00009)

REF: STATE 02310

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1.(U) This message responds to reftel request. Given that the EU has no collective security presence in Iraq, the discussion focuses exclusively on economic assistance provided through the European Commission (EC).

¶2. (U) CURRENT EC DEVELOPMENT ASSISTANCE IN IRAQ: EC support to Iraq from 2003 through the end of 2007 amounted to 818.4 million euros in grant aid, of which 708.2 million is devoted to reconstruction. Major areas of focus include education, democracy and governance and health. Other areas of EC interest include agriculture, water, infrastructure, capacity building, civil society and refugees.

¶3. (U) Most EC funding to date has been channeled through the International Reconstruction Fund Facility for Iraq (IRFFI), a multilateral mechanism established in 2004. Also, the EC has been a major contributor to the United Nations Development Program Thematic Trust Fund. Excluding the (117.8 million euros between 2003-2007 in) humanitarian assistance through the Commission's humanitarian arm ECHO, nearly 90 percent of all EC funding for Iraq has been allocated through either IRFFI or the UNDP fund.

¶4. (U) The fifth IRFFI donor committee meeting was held in Istanbul in March 2007. A follow-up meeting will be held in Naples this week. Among other things, the Istanbul meeting extended the lifetime of IRFFI, which was initially expected to expire at the end of 2007. According to the agreement, IRFFI will now continue until all projects are completed and all funds are disbursed.

¶5. (U) EC contributions represent nearly 40 percent of all IRFFI funding. Major bilateral donors to IRFFI include Japan, the UK, Spain, Canada and Australia. A number of other countries including Italy, Korea, Sweden, Norway, Netherlands, Denmark, Germany, India, Kuwait and the US are also represented.

¶6. (U) The EC views itself as a significant supporter of the International Compact with Iraq, launched by the Government of Iraq in 2006. Endorsed by the international community at a conference attended by more than 60 countries in Sharm-el-Sheikh in May 2007, it provides a "national vision

for Iraq aiming at consolidating peace and pursuing integrated political, economic and social development over the next five years".

¶17. (U) While direct EC assistance to Iraq has been much more modest, a handful of small "bilateral" projects have also been launched. Such activity includes grants to the International Organization for Migration (IOM) in 2004 and again in 2005 to train electoral observers; a 2005 project aimed at promoting human rights; and a contract with the International Management Group (IMG) to provide two technical experts working in Baghdad.

¶18. (U) FUTURE FUNDING LEVELS: EC assistance is typically programmed on a multi-year basis within the context of a long-term country development strategy. However, Iraq remains unusual in that funding and program identification is undertaken on a year-to-year basis. In the words of one senior EC interlocutor, "we maintain a long-term political commitment to Iraq but decisions about the aid program are made annually." Contact further stated that development of a strategy paper would require "a government we could work with."

¶19. (U) The EC Middle East budget covering Iraq, Iran, Yemen and the Gulf States for 2008 will be around 90 million euros. An estimated 15-20 million euros of this amount will be directed toward Yemen and modest funding will be provided to Iran, mainly related to civil society and public diplomacy. Remaining funds will be allocated to Iraq.

¶110. (U) The EC would like to move to a multi-year strategic perspective in Iraq. In fact, for two years it worked on doing exactly that. However, uncertainty combined with shifting realities on the grounds mean that it is still too early to adopt a multi-year strategic approach.

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¶111. (U) EC counterparts have indicated a "clear willingness by the EU to get more engaged with Iraq" and have suggested that there would be "greater engagement by the member states, yet this may not bring immediate results". At the same time, they indicated that "greater involvement" does not necessarily mean "more funds". In their view, aid effectiveness is more important than the level of funding.

¶112. (SBU) CONSTRAINTS TO GREATER INVOLVEMENT: The EC views limited local capacity as the main constraint to development in Iraq, not the amount of donor funding. Increasingly, Iraq should be funding its own development out of its own resources. Declines in EC funding levels since 2003 are attributed to the capacity issue, not lack of interest in assisting Iraq. In the words of one counterpart, "Iraq is a rich country and has to make better use of its own resources."

¶113. (U) EC counterparts professed an interest in providing more direct technical assistance, especially related to building administrative and management capacity within the Government of Iraq. Possible areas of involvement include budget management, energy and support for the council of representatives. Also, on the humanitarian side, refugees in Jordan and Syria and internally displaced communities within Iraq are a major concern.

¶114. (SBU) Lack of viable on-ground organizations that can deliver assistance effectively coupled with high security costs are also cited by the EC as obstacles. While technical advisors receive a premium for working in Iraq, EC officials indicated that their salary structures are often not competitive with those programs funded by other donors, including the US.

¶115. (SBU) EC counterparts professed frustration about their limited experience in providing direct technical assistance to Iraq. One case cited involved six million euros allocated

for work related to customs. Although the funding was set aside after extensive consultations, a new Iraqi counterpart arrived on the scene and decided unilaterally to scrap the intended focus on capacity building in favor of improving infrastructure. Nothing happened and the funds are no longer available.

¶16. (SBU) A limited EC presence in Iraq also limits oversight and awareness about the on-ground situation. There is a limited EC development presence in Baghdad which in turn is supported by an EC office in Amman. Although the EC is increasingly providing management authority to its field missions around the world, the Iraq program continues to be directly handled from Brussels.

¶17. (U) From an EC perspective, there are two constraints that affect virtually every aspect of their work in Iraq: first, security; and, second, instability and uncertainty within the government of Iraq.

¶18. (SBU) STRATEGIC ASSESSMENT: EC counterparts describe Iraq as "extremely important" for Europe. Partly, this has to do with physical proximity. As counterparts pointed out, Iraq directly borders a prospective member state, Turkey; "it is almost in the neighborhood". In addition, Iraq's significant energy resources are an important concern in a continent whose economy hinges on energy imports. Over the long term, the EC would like to see "normal relations develop with Iraq, like those that we now have with the various Gulf countries".

¶19. (SBU) PARLIAMENTARY CONCERNS: The European Parliament is increasingly asking questions about EC assistance to Iraq. Although EC development policy places significant emphasis on trust funds and pooled resources along the lines of IRFFI, EC officials face increasing skepticism about this approach from parliamentarians. Partly, this is due to implementation delays, low expenditure levels and perceptions about limited impact. In addition, when assistance is funded through trust fund arrangements, individual donors receive far less recognition. Finally, with the passage of time, parliamentarians are becoming increasingly interested in accountability.

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¶20. (SBU) At a programmatic level, parliamentarians tend to promote poverty reduction concerns. For this reason, programs focused on capacity building within Iraqi governmental institutions receive special scrutiny. For example, Members of European Parliament (MEPs) questioned even a modest one million euro energy program because it was not seen to directly address poverty concerns. As a result of increased parliamentary scrutiny, development officials are becoming more "cautious".

¶21. (U) PUBLIC OPINION: Parliamentary interest in accountability, impact and other issues is not driven by European public opinion. Rather, it reflects the interests of individual MEPs. Public opinion on EC economic assistance in Iraq does not register in the same way as development programs related to Africa or disaster relief. Perhaps this is partly because the EC profile in Iraq is small, given the reliance on pooled funding through IRFFI. But it also reflects the fact that European public opinion is much less seized by issues in Iraq than was the case three or four years ago.

22: (U) UPCOMING MEETINGS AND EVENTS: The next big event on the EC donor calendar for Iraq is the upcoming IRFFI meetings in Naples. As the major source of funding to IRFFI, EC is vitally interested in its impact and effectiveness. While separately expressing concern about the effectiveness of some aspects of pooled funding arrangements related to Iraq, EC counterparts have indicated that they will continue to press for broad international involvement in IRFFI, including US

support. Looking further ahead, EC sources indicate that uncertainty and instability in Iraq make it "extremely difficult to plan anything, even meetings".

¶23. (U) More broadly, the EC would like to sign a trade and cooperation agreement with Iraq, providing a common framework similar to those often used to help shape EC development programs in other countries. The next round of discussions on this subject should take place in Brussels in February. At some point, there is hope that these discussions can take place in Baghdad as well.

¶24. (U) As for upcoming events in Iraq that are a matter of special interest, these include provincial elections; legislative elections; and disagreements over the future of Kirkuk.

¶25. (SBU) VIEWS ON SECURITY SITUATION: The EC threat assessment has an "enormous impact" on perceptions about economic assistance to Iraq. In the EC view, there are "enormous constraints for working on the ground". Mobility and access for the small EC presence in Baghdad is limited and those assigned there work amidst considerable personal risk. While the EC would like to support programs in agriculture, health and other areas directly, access makes direct assistance in these areas problematic right now.

26: (SBU) AREAS FOR IMPROVEMENT: EC counterparts place significant emphasis on donor coordination. In their view, too much time is spent responding to questions from multiple donors as well as multiple institutions within a particular donor country. At the same time, there is a need for accurate and up-to-date information. Web-based information sources are often inaccurate or out of date. All donors need to present their program information quickly and reliably.

¶27. (SBU) Better donor coordination will be a major area of interest during the upcoming IRFFI discussions in Naples. Without coordination, duplication is inevitable. However, when these discussions take place, the overwhelming emphasis should be on improving existing structures, not creating new ones. Also, EC officials strongly believe that the International Compact with Iraq launched in 2006 should remain as the key frame of reference for providing development assistance to Iraq.

¶28. (SBU) COMMENT: EC aid to Iraq relates entirely to economic assistance and does not involve security forces. There is strong interest in capacity building as well as a desire to provide direct technical assistance. In reality,

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though, programmatic requirements and the situation in Iraq have led the EC to primarily rely on a trust fund approach, with EC programs by and large funded through pooled funding arrangements and primarily managed by other institutions, most notably the UNDP and World Bank.

¶29. (SBU) While acknowledging that security improvements are providing some measure of "guarded hope," EC programming mechanisms are unlikely to change over at least the short and even medium term. Most notably, initial attempts to provide technical assistance directly have proved frustrating, mainly because of lack of continuity among counterparts and limited local capacity to effectively manage either international or local funds. While the EC is committed to providing economic assistance to Iraq, security concerns combined with weak counterpart institutions remain as serious stumbling blocks. They also continue to color EC perceptions about both the impact and effectiveness of their aid programs in Iraq.

MURRAY